

Message Text

PAGE 01 SAN SA 03253 250017Z

12

ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 L-03 IO-13 AGR-20 NSC-10 SS-15

STR-08 CEA-02 PA-03 PRS-01 USIA-15 RSR-01 /181 W

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R 242240Z AUG 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3599

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: EGEN; EFIN; IMF; ES

SUBJ: IMF TEAM CONCLUDES VISIT

GUATEMALA ALSO FOR ROCAP

1. A FOUR-MAN IMF TEAM HEADED BY JULIO GONZALEZ CONCLUDED A TWO WEEK VISIT AUGUST 17. GONZALEZ AND HERNAN POULENTES (TO BE ASSIGNED AS IMF RESIDENT AT MANAGUA) CALLED ON AID/EMBASSY AND IN SEVERAL MEETINGS IMPARTED THEIR IMPRESSIONS. THE TEAM'S OBJECTIVE WAS TO UPDATE ECONOMIC DATA AND OBTAIN IMPRESSIONS CONCERNING ALL ASPECTS OF THE ECONOMY. ITS PRODUCT, THE UPDATED INTERNAL IMF REPORT ON EL SALVADOR, SHOULD BE RELEASED IN OCTOBER. WE WERE IMPRESSED AND SOMEWHAT SURPRISED AT THE BREADTH OF THE TEAM'S INQUIRIES, WHICH EXTENDED BEYOND THE GOES TO INDUSTRY ASSOCIATIONS, PRIVATE BANKERS, AND PROMINENT INDUSTRIALISTS. THE FOLLOWING HIGHLIGHTS WHAT GONZALEZ REPORTED, MUCH OF WHICH WAS IN CONFIDENCE.

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PAGE 02 SAN SA 03253 250017Z

2. BALANCE OF PAYMENTS: WITH A 1972 FAVORABLE BALANCE OF TRADE (GOODS AND SERVICE) OF \$5.5 MILLION AND MOUNTING NET INTERNATIONAL RESERVES, THE COUNTRY FACES NO SHORT-TERM PROBLEMS. THERE IS NO NEED FOR IT TO ADD TO ITS NET INTER-

NATIONAL RESERVES WHICH NOW EQUAL ABOUT THREE MONTHS' IMPORTS NOR TO UTILIZE IMF BORROWINGS. THE STRENGTH OF ITS POSITION IS EVIDENCED BY THE REQUIREMENT THAT IT MAKE REPAYMENTS TO THE IMF OF SOME \$13 MILLION.

3. MONETARY: GONZALEZ FOUND THE CENTRAL RESERVE BANK (BCR) PREOCCUPIED WITH INTERNATIONAL MONETARY ISSUES (PERHAPS REFLECTING ITS WORKLOAD IN SUPPORTING BCR PRESIDENT SUAREZ' POSITION AS REGIONAL REPRESENTATIVE OF THE GROUP OF 20) AND CONCERNED OVER THE EFFECTS OF DOLLAR DEVALUATIONS. GONZALEZ SAID HE POINTED OUT THAT ON A NET BASIS THE EFFECTIVE COLON DEVALUATION MAY BE HELPFUL; THE GREATER PROBLEM ADMITTEDLY LIES WITH COTTON FUTURES SALES IN DOLLARS AT PRESENTLY RIDICULOUSLY LOW PRICES. THE PRESENT COMPOSITION OF THE BCR'S INTERNATIONAL RESERVES, A MATTER STILL A "STATE SECRET", IS 60 PERCENT IN HARD NON-DOLLAR CURRENCIES, WITH THE BALANCE IN DOLLARS. HENCE THE REPAYMENT TO THE FUND, NOT POSSIBLE IN DOLLARS, CAN BE MADE WITHOUT THE HARDSHIP OF NEW PURCHASES OF HARD CURRENCIES ACCEPTABLE TO THE IMF. THE BCR ASKED THE TEAM ITS REACTION WERE EL SALVADOR TO GO INDEPENDENT OF THE DOLLAR IN TERMS OF ANY FUTURE DOLLAR DEVALUATION. GONZALEZ RESPONDED THAT THE FUND WOULD ADVISE AGAINST IT FOR REASONS TO EL SALVADOR'S ADVANTAGE.

4. CREDIT POLICIES: THE TEAM SUGGESTED THAT INTEREST RATES, IF NOT REMOVED FROM DIRECT BCR CONTROL, BE AT LEAST RAISED TO PERMIT A MORE ECONOMIC ALLOCATION OF CAPITAL RESOURCES. THE BANK WAS CRITICIZED FOR EXCESSIVE CREDITS AND AT NEEDLESSLY LOW DISCOUNT RATES (E.G. FOUR PERCENT) TO WELL-OFF COFFEE AND COTTON SECTORS. IT NOTED THAT COMMERCIAL BANK CREDIT DEMAND WAS FIRM WHEREAS THE BCR, WITH INCREASED DEPOSITS FROM BANK RESERVE REQUIREMENT AND A LARGE DROP IN CENTRAL GOVERNMENT FINANCING, COULD NEED TO FIND WAYS TO INCREASE ITS CREDIT DEMAND. IT NOTED THAT EXCESS LIQUIDITY AS A "PROBLEM" PEAKED AROUND MID-1972 AND CEASED TO EXIST IN 1973. AT END-JULY IT WAS AT 1.9 PERCENT, A "NORMAL" FACTOR.

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PAGE 03 SAN SA 03253 250017Z

5. GOVERNMENT FINANCES: THERE WERE GOOD WORDS FOR IMPROVED REVENUE COLLECTIONS AND THE CENTRAL GOVERNMENT FINANCIAL HEALTH. THE TEAM LEARNED NOTHING, AT LEAST THAT IT MENTIONED TO US, OF TAX REFORM PLANS. IT MADE SEVERAL SUGGESTIONS TO THE BCR ON THE USE OF MONTHLY TAX DEPARTMENT DATA IN SHORT-TERM INDICATORS.

6. COFFEE: THE TEAM TOOK THE GOES TO TASK FOR FALSIFYING COFFEE DATA IN BOTH TRADE AND INVENTORIES. GONZALEZ SPENT MUCH OF HIS TIME AT THE SALVADORAN COFFEE COMPANY (CSC) WRANGLING OVER DATA. ONE SET OF DATA OBTAINED IS REPORTED BY SEPTTEL. THE GOES ADMITTED THAT IT HAD "GOOFED" IN SELLING SURPLUSES IN 1972 AT LOW PRICES WHEN ALL PREDICTIONS WERE FOR CONTINUED FIRMNESS

IN THE MARKET. GONZALEZ SAIS, VERY CONFIDENTIALLY, THAT AN EXAMINATION OF THE CSC' BOOKS SHOWED A LOSS OF SOME \$20 MILLION.

7. STATISTICS: MUCH OF THE TEAM'S EFFORTS WERE IN CLARIFYING AND RECONCILING STATISTICS NEEDED FOR ITS REPORT. AS A RESULT OF FALSE COFFEE DATA IN RECENT YEARS THE TEAM REQUESTED AND OBTAINED AGREEMENT BY THE GOES TO REVISE TRADE DATA AND OTHER NATIONAL ACCOUNTS DATA AFFECTED BY THE COFFEE REVISIONS, FOR THE FOUR YEARS 1969 -1972. THEY "OFFERED" TO ASSIST THE GOES IN ITS STATISTICAL "CONFESSIONS" BY RELEASING THE CORRECT DATA IN THE IMF SERIES. THE RECENTLY RELEASED "FINAL" REPORT ON 1972 EXPORTS, WHICH OMITTS SOME \$27 MILLION IN COFFEE EXPORTS, IS TO BE REDONE. THE IMF ARGUES (AS WE HAVE OFTEN MENTIONED) THAT EL SALVADOR, WITH INCORRECT AND UNDERSTATED COFFEE DATE, COULD FIND ITSELF IN THE SAME UNDER-DOG POSITION IN A NEW ICA AS IT HAD COMPLAINED ABOUT IN THE PREVIOUS TWO ICA'S.

8. ECONOMIC PROSPECTS: GONZALEZ REFERRED TO THE GOOD PROSPECTS FOR THE COUNTRY DUE TO CONTINUING RELATIVELY HIGH PRICES IN AGRICULTURAL EXPORTS BUT THAT THEY WOULD NOT BE FULLY ENJOYED UNTIL 1974 OWING TO SALES BY COTTON FUTURES FOR 1972/73 AT HALF THE PRESENT PRICES AND THE DISPOSAL OF COFFEE SURPLUSES AT LOW PRICES. AGRICULTURAL EXPORTS SHOULD CONTINUE TO MOTOR THE ECONOMY AT RATES OF 4-5 PERCENT IN REAL TERMS. THE TEAM WAS DISAPPOINTED AT THE GOES' FAILURE TO INCREASE SIGNIFICANTLY PUBLIC INVESTMENT OVER THE LEVEL OF THE LAST SEVERAL YEARS, DESPITE THE STRONG INTENTIONS OF THE FIVE-YEAR PLAN AND AVAILABLE FINANCING FROM INTERNATIONAL INSTITUTIONS. THEY
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PAGE 04 SAN SA 03253 250017Z

BLAMED PERSONNEL INCAPACITIES AND LINGERING FISCAL AND MONETARY CONSERVATISM. GONZALEZ SAID CONAPLAN HAD OVERSTATED 1972 PUBLIC INVESTMENT IN ITS ESTIMATES; THAT THE MINISTRY OF FINANCES' REPORTS ON CAPITAL EXPENDITURES WERE ABOUT HALF THE 120 MILLION COLONES ESTIMATED. THEY, AS WE, FOUND DIFFERING ESTIMATES BETWEEN CONAPLAN AND THE BCR ON 1973 GROWTH ESTIMATES. THE FORMER, USING A "SHORT-TERM MODEL" PREDICT 15 PERCENT GDB GROWTH AT MARKET PRICES, OF WHICH 7 WOULD BE REAL GROWTH. THE BCR HAS REVISED ITS PREDICTION OF 7 PERCENT (5 REAL) TO 11 PERCENT (7 REAL). WE TEND TO AGREE WITH THE TEAM'S BELIEF THAT REAL GROWTH AROUND FIVE PERCENT IS MORE LIKELY; THE PRICE FACTOR IS DIFFICULT TO ESTIMATE, BUT SOMETHING AROUND 6 PERCENT IS REASONABLE.
MOSKOWITZ

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